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A REVIEW OF THE PROBLEMS ENCOUNTERED IN
PRIVATE LARGE SCALE REDEVELOPMENT SCHEMES

by

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RESEARCH REPORT

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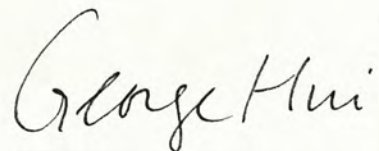
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ABSTRACT

In this study, the Whampoa Dockyard Redevelopment was used as a reference case to examine the various problems which private developers would encounter in undertaking large scale redevelopment schemes and how these problems could be avoided or mitigated as far as possible. It was suggested that a useful starting point for formulating a redevelopment proposal would be the design population density. Quite a number of factors would have to be considered in evaluating whether a redevelopment scheme is financially viable and desirable. During the negotiations with government, an experienced and skilful person in charge would be the key to getting the best possible deal. On the other hand, a close watch on the property market and other social and economic conditions is necessary to ensure that appropriate amendments to the redevelopment scheme could be made in good time. It was also briefly considered in the study how the recently announced Land Development Corporation proposal could aid redevelopment schemes by private developers.

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CHAPTER I

INTRODUCTION

Background

In the past two decades, a number of private large scale redevelopment schemes took place in Hong Kong. For those in the urban areas, most of them involved redeveloping plots of land which were formerly used for industrial and related purposes into large housing estates with associated commercial and government/community facilities. The scales of these schemes in many cases rivalled or even surpassed housing schemes undertaken by government. Such schemes also often had significant impacts on society because of their massive sizes and wide ranging implications.

Mei Foo Sun Chuen at Lai Chi Kok was one of the first of such private large scale redevelopment schemes. Formerly an oil depot of the Mobil Company, it has turned into a huge residential estate with more than 27,000 flats housing nearly 90,000 people. The redevelopment took more than 16 years to complete, not including the amount of time required to remove the oil depot facilities to Tsing Yi Island. Another large scale redevelopment scheme which is currently still ongoing is the Taikoo Shing at Quarry Bay on Hong Kong Island. With a site area of about 21.5 hectares (215,000 m²), Taikoo Shing will have a total of about 10,000 flats upon completion of redevelopment.

Because of the nature of the original operations (oil depot, dock-yard etc), the sites of these redevelopment schemes were initially situated at then remote places far away from the urban areas. However, due to the expansion of the urban area for housing a rapidly growing population,

many of these originally remote sites became part of the urban area. With the surrounding areas heavily populated, the original industrial usage of these sites became out of place. Furthermore, convenient transport connections and good availability of services and other facilities made these sites ideally suited for residential development. To the owner of the lot, there was also a very strong financial incentive for him to redevelop the lot. Appreciation in land value over the years alone would imply tremendous profit potential in a redevelopment project.

Despite all these conducive factors, such redevelopment schemes were not without their problems. In this study, we shall use the Whampoa Dockyard Redevelopment as an example to examine the problems that developers often encounter in such large scale redevelopment schemes and attempt to make recommendations on how these problems could be avoided or mitigated as far as possible.

Whampoa Dockyard Redevelopment

On December 14, 1984 the Managing Director of the Hong Kong and Whampoa Dock Company Limited signed an agreement with the Registrar General of the Hong Kong Government regarding a contemporaneous land exchange¹ in respect of the Whampoa Dockyard to facilitate comprehensive redevelopment of the dockyard site. The redevelopment scheme has been named Whampoa Garden. It will comprise of 94 towers with not more than 11,224 residential units of average size 63m², providing homes for about 45,000 people. In addition to residential accommodation, there will also be commercial accommodation of total gross floor area 157,000m². Car parks and loading/unloading facilities will be provided.

In consideration of the land exchange and permission to proceed with the redevelopment, the developer, Hong Kong and Whampoa Dock

¹ the site was surrendered by and immediately regranted to the developer with a new set of lease conditions governing the intended redevelopment

Company Limited (a subsidiary of the local conglomerate Hutchison Whampoa Limited) was required to pay a premium of HK\$390 million to the government. Additionally, the developer will have to form the sites for two primary schools and two secondary schools, build a public transport terminus and provide certain community facilities within the development. Further to the above requirements, the developer also has to construct and hand over to government upon completion an external road network of estimated total worth exceeding HK\$200 million in association with the redevelopment.

The signing of the agreement signified the end of the protracted negotiations and renegotiations between the developer and government which dated back to 1978. On the part of the developer, the commencement of the planning and preparation for the redevelopment scheme dated back even further. The details of the redevelopment proposals had undergone several changes, sometimes out of the developer's own intent and other times as a result of response from the government.

Initially the redevelopment proposal was for a mixture of residential, commercial and industrial accommodations. The mix proportions of the various uses were revised several times and the latest finalised redevelopment proposal was for residential and commercial accommodation only.

The focus of contention between the developer and government was on the traffic implications the huge redevelopment would have on the congested Hung Hom area although other arguments like those on the provision of government/community facilities also played a part in prolonging the process of reaching a final agreement. The developer's changing perception of the prevailing property market conditions and his committed industrial development on part of the dockyard site had also contributed towards the complications of the matter. Later in this report, we shall trace the development of this case in details and draw analogies from it for our analysis on the research subject.

Key Issues

Chronologically, a redevelopment scheme could be divided into three stages:

- (i) Formulation of proposal to commitment by management ;
- (ii) Negotiation with government to reaching agreement ;
- (iii) Execution of the redevelopment scheme.

The first stage concerns mainly long range planning by the firm and financial evaluation of the viability or desirability of the proposal. It is dependent to a large extent on the management's policy. Our analysis and discussion of this portion of the study will be in a generalized form concentrating mainly on the aspect of financial viability. Funding for the redevelopment project is also a subject we will look into.

For stage two, the problems mainly arise from the developer and government taking different views on the redevelopment scheme and possible conflicts in interest. There are also problems such as changes in social and economic conditions which might affect the viability of the scheme or necessitate appropriate changes before reaching a firm agreement with government. Changes in government policies and funding at this stage would also be important issues to be considered. We shall look at the various possible problems in details.

Stage three concerns mainly with implementing the redevelopment scheme at a schedule most appropriate to the prevailing market conditions. The major problem would be that of getting an accurate prediction of the future conditions of the property market. This is a problem common to all real estate developments due to the long lead time of the industry. However, the implementation programme could be a source of serious problems in redevelopment schemes as the developer might be bound by certain conditions in the agreement with government and hence unable to act as freely as he wish.

Approach

Our main aim in this study is to identify and analyse the problems which developers would encounter in large scale redevelopment schemes. However, in many cases, the problem does not concern the company alone and government's attitude on the issue would heavily influence the appropriate action to be taken. As such, we shall have to examine the key issues from both the developer's viewpoint and government's viewpoint where appropriate. Often, because of the different and sometimes conflicting roles played by the developer and the government, the two parties could have different or even conflicting views on the same subject. For example, in pursuit of greater profits, the developer would wish to maximize the development potential of the lot and build as many flats as possible. However, the government might hold the view that the redevelopment scheme would provide a good chance for making up the deficiency in government/community facilities, such as open space, in the area and hence would prefer a lower density of development.

The study will follow the course of a proposed redevelopment scheme and draw references from the Whampoa Dockyard Redevelopment where applicable. Information on the Whampoa Dockyard Redevelopment would be mainly drawn from file records of the government office in which the author works. Possible problems at the various stages of the redevelopment scheme will be identified and ways to tackle the problems will be discussed. In each case the problem will be treated from both the developer's viewpoint and the government's viewpoint when applicable in order to arrive at the most appropriate course of action in tackling the problem.

CHAPTER II

PROCESSING OF REDEVELOPMENT PROPOSALS IN GOVERNMENT

In this chapter, we shall look at how redevelopment proposals are processed within government. Because of their far reaching implications, large scale redevelopment schemes are always considered in great details by government involving all relevant departments. Apart from the procedure, we shall also examine the various bodies involved in the processing of redevelopment proposals. A better understanding on the government's part will help us in coming to grasp with the characteristics of redevelopment proposals that are likely to receive prompt and favourable consideration from government.

Initiation of a Redevelopment Proposal

When a company has decided to proceed with a redevelopment scheme, normally an Authorized Person¹ is employed to put up the proposal for consideration by government. If the redevelopment does not involve any change in land use, e.g. building a multi-storey industrial building on a site previously occupied by a single-storey factory, the conditions of the existing land lease would still be applicable. The redevelopment proposal could be directly submitted to the Building Development Department for consideration. However, if changes in land use are involved, e.g. an industrial site to be redeveloped for commercial/residential purposes, then the approval of the Town Planning Board must be obtained.

¹ Authorized Person- a person (normally an architect or an engineer) registered with the government and authorized to submit building proposals.

If the proposal is approved, the land use zoning of the parcel of land on the relevant Outline Zoning Plan will have to be amended. Later on we shall examine the various aspects of the Town Planning Board and Outline Zoning Plans in greater details. Also, from now on we shall concentrate our attention on redevelopment proposals involving changes in land use only.

Government Departments

After the reorganization of the former Public Works Department (now become the lands and works group of departments¹) in 1982, formal authority for processing redevelopment proposals and approving the related lease modifications lies with the Director of Lands (of the Lands Department). However, in considering any redevelopment proposals the Director of Lands must consult the views of relevant departments, both within and outside the lands and works group. Yet, as we shall see, the views of departments within the group and perhaps also those of the Transport Department would weigh far more heavier than those of other departments in determining whether a certain redevelopment proposal is acceptable to government or not.

Lands and Works Conference

When a redevelopment proposal is received, normally the Lands Department will present it for consideration at the Lands and Works Conference. Previously called the Public Works Department Conference, the Lands and Works Conference is the venue for coordinating views of departments within the lands and works group on matter affecting land policy of major principles. These include proposals involving changes in land use and/or proposed changes in lease conditions that are of

¹ lands and works group of departments- see Appendix 1

considerable significance (e.g. relaxing the restriction on the development intensity in a controlled area). The Lands and Works Conference meets twice a month and is chaired by the Secretary for Lands and Works, with members consisting of heads of relevant departments and offices of the lands and works group. It is therefore the top level decision-making body within the group.

Prior to discussion at the Conference, the Lands Department will circulate the proposal to relevant departments (including those outside the lands and works group when appropriate) for comments. Transport Department is one of the few departments not belonging to the lands and works group but which is often consulted on development proposals. This is because most development proposals would have traffic implications and hence require inputs from the traffic engineering divisions which were transferred from Highways Office of the Engineering Development Department to the Transport Department in 1982. In fact, the initial submissions of quite a number of large scale redevelopment proposals were rejected on traffic grounds. The Whampoa Dockyard Redevelopment is a case in point.

After collecting the departmental comments, the Lands Department will consolidate the views and prepare a paper for discussion at the Conference. The prepared notes for the Conference will be circulated prior to the actual meeting to the relevant divisions¹ which will forward their view to their respective office and department heads for discussion at the Conference. Based on this information, the Conference will decide whether the proposal can be acceptable in principle or should be rejected. Very seldom is a large scale redevelopment proposal accepted at its initial submission. Normally there would be one or more aspects of the scheme found unacceptable to government. In such cases, the

¹ departmental organization hierarchy- department-office-division

scheme would be referred to relevant offices to further investigate whether viable alternatives exist or the scheme is fundamentally unacceptable. When the consolidated views of government have been finalised, the developer would be informed accordingly.

Should the initial submission be rejected, the developer may modify the proposal while taking into account comments from government and resubmit it. The above process will be repeated again. When a redevelopment proposal has been finally accepted in principle, next it will be presented to the Land Development Policy Committee for approval.

Land Development Policy Committee

Under its terms of reference the Land Development Policy Committee is required to consider all major proposals for land development and planning before any detailed work is done on them. This applies to work to be carried out by both the public and private sectors. Members of the Land Development Policy Committee consist of a number of officials at the Secretary level (including the Secretary of District Administration, Secretary for Housing, Secretary for Transport and others), the heads of the Lands Department and New Territories Development Department, and the head of the Town Planning Office. The Chairman of the Committee is the Secretary for Lands and Works. The Committee serves as the channel of highest level within government for coordinating all land development and planning matters between the various Branches.

Important submissions to the Committee are discussed and approved at the regular meeting which are held monthly. However, for ordinary matters a system of approval by presumption is adopted. Under this system, proposals in the form of a paper are circulated to members of the Committee and approval is presumed within 21 days of issue unless members have substantive comments which they wish to be discussed at a full committee meeting. Major redevelopment proposals, being far from

straightforward matters, are without exception discussed at committee meetings.

As the Committee is mainly a body for coordination, redevelopment proposals that have been accepted in principle by the Lands and Works Conference and then submitted to the Committee are normally approved without hassle. Probably this also has something to do with the fact that the Chairmen for both bodies are the same person- the Secretary for Lands and Works. It is also relevant to note that all papers submitted by the lands and works group to the Committee must be cleared with the Lands and Works Conference prior to submission. Subsequent to approval by Land Development Policy Committee, the redevelopment proposal will then have to be submitted to the Town Planning Board to satisfy the statutory requirements.

Town Planning Board

Under the Building Ordinance, the Building Authority may refuse to give his approval of any plans of building works "where the carrying out of the building works shown thereon would contravene any approved or draft plan prepared under the Town Planning Ordinance"¹. As mentioned earlier, the approval of the Town Planning Board must be obtained and the zoning on the relevant town plan amended before any redevelopment proposal involving change of land use can proceed.

The Town Planning Board is appointed by the Governor under the authority of the Town Planning Ordinance. The functions of the Board is to "undertake the systematic preparation of draft plans for the future layout of such existing and potential urban areas as the Governor may direct as well as for the types of building suitable for

¹ adapted from section 16(1) of the Building Ordinance.

erection therein with a view to the promotion of the health, safety, convenience and general welfare of the community".¹ The Board consists of a number of official and unofficial members. The Chairman of the Board is again the Secretary for Lands and Works and other official members include the Director of Building Development (as Vice Chairman), the representatives of Secretary for Transport and others. Currently ten appointed unofficial members sit on the Board.

The Board meets twice every month. The main activities of the Board are to consider amendments to Outline Zoning Plans, objections received during the exhibition of draft plans and applications under Section 16 of the Town Planning Ordinance. A redevelopment proposal has to go through both the procedures of amending the Outline Zoning Plan and the Section 16 application.

Before the proposal is considered by the Town Planning Board, it is circulated to relevant departments once again for any last minute comments. The developer or his representative may appear before the Board and present his scheme. The Board may then reject or approve the proposal. Normally when a redevelopment proposal has been approved by the Town Planning Board, the relevant Outline Zoning Plan will be amended by rezoning the affected land to "Other Uses" and annotated "Comprehensive Redevelopment Area". The amended plan will be exhibited for public inspection for two months during which any person affected by the draft plan may file a written objection to the Board. If no objections are received or where the objections are not upheld by the Board, the draft plan will be submitted (together with objections which are not withdrawn) for approval by Governor in Council.

Following appropriate amendments in the town plan, the developer

¹ adapted from Section 3, Town Planning Ordinance (cap 131) 1974

shall submit an application for permission under Section 16 of the Town Planning Ordinance. The Board shall consider the application and when approving it may impose conditions as the Board thinks fit. In this respect, the conditions imposed by the Board are normally based on the comments from various departments collected during the circulation prior to consideration by the Board.

When the Section 16 application has been approved, the redevelopment could be considered as firmly approved in principle by the government. Where necessary, other statutory requirements may have to be met subsequently, e.g. gazetting the related roadworks under the Roads (Works, Use and Compensation) Ordinance. However, these would not affect the basic agreement between the developer and government. Following the Town Planning Board's approval, the basic terms regarding the redevelopment will be formulated by the Lands Department for discussion/agreement at the District Lands Conference.

District Lands Conference

The District Lands Conference deals with all land matters such as the granting of land, modifications of land leases etc, on a district basis. It replaces the former Crown Lands Conference following the defederalisation of the Public Works Department during which the authority for all land matters was transferred to the newly formed Lands Department. The District Lands Conference is chaired by the Government Land Agent/Disposal and its members consist of heads of relevant divisions. The Conference meets twice a month to consider conditions of land grants to government departments and non-government agencies, temporary allocation of land, tender and lease conditions for sale of land and lease modification cases.

For an approved redevelopment proposal, normally the land

grant is effected by way of a contemporaneous surrender and regrant of site with a new set of lease conditions. Following the approval by the Town Planning Board, the Lands Department will prepare a District Lands Conference paper which contains the background information of the case and the suggested basic terms. The paper will be circulated prior to discussion at the Conference. The purpose of the discussion at the Conference is to finalise the basic terms for the redevelopment which would include the conditions imposed by the Town Planning Board, the requirements of various departments and certain standard terms. Next the departmentally agreed basic terms would be communicated to the developer. If the developer finds them agreeable then government will proceed with the finalisation of the Conditions of Exchange.

Signing of the Agreement

The final stage of the processing of redevelopment proposal - the drafting of the Conditions of Exchange, is carried out by the Registrar General Department. It is basically an exercise of putting together the various conditions and requirements in appropriate legal terms. Relevant departments are consulted on their exact requirements during the drafting process. For complicated cases, which are the rule rather than the exception, it would take considerable time before the final version of the agreement document is made ready.

One of the conditions in the agreement is the payment of a premium in respect of the land exchange. The amount of premium to be paid is assessed by the Lands Department when the basic terms are finalised. The premium amount together with the basic terms are communicated to the developer for his agreement before the drafting of the formal agreement document. Normally a time limit of two to three months is set for the acceptance of the terms beyond which the terms quoted

will be automatically withdrawn without further reference to the developer. Up to this point, no legal obligation has yet been created between the developer and government and both sides could still change their mind.

Upon receipt of the developer's confirmation to proceed, the Lands Department will arrange for the issue of a demand note in respect of the premium to be paid. A non-refundable administrative fee will also be charged and is to be paid immediately. If not already paid, the premium is to be paid to the government upon demand after the signing of the agreement. Normally, the Registrar General will sign the agreement with the developer on behalf of the Governor. Subject to the payment of the premium, possession of the land is considered to be given and taken on the date of agreement. At this point, the developer's right to redevelop the land is formally secured.

Time Required for Processing

It can be seen from the above that the processing of redevelopment proposal is a long and tedious undertaking. Though much of the work is actually carried out by government departments, in particular the Lands Department, it would help to speed up the process if the developer could keep in close contact with relevant government officials. The amount of time for the process would be much dependent on the complexity of the project. However, past experience indicated that for a major redevelopment scheme, it is highly unlikely that all the procedures could be completed in less than 1½ years which is about the minimum time required to finish the circulation and recirculation of the proposals among relevant departments and consultations in the various organizations.

For ease of reference, a flow chart outlining the processing of redevelopment proposals in government is shown in Appendix 2.

CHAPTER III

WHAMPOA DOCKYARD REDEVELOPMENT¹

Initial Proposal

In July 1978 the Hong Kong and Whampoa Dock Company (Whampoa) submitted a redevelopment scheme concerning the Company's dockyard site at Hung Hom prepared by architects Ng Chun Man & Associates to the then Public Works Department for consideration. The scheme covering the Whampoa Dockyard site of about 21.6 ha² was to provide 5,334 flats to accommodate about 21,000 persons and 651,280 m² gross floor area³ for industrial purposes. The proposed domestic plot ratio³ was 5.79, non-domestic 2.08 and 10 for industrial.

The dockyard site⁴ was situated at the seafront of the heavily populated Hung Hom district. It was bounded by residential areas on the north, industrial facilities including power station and cement works on the east, and by the sea on the south and west. Due to the heavy population build-up and dense industrial activities plus the scarcity of roads (of which many were private streets), Hung Hom has long been known as a congestion area.

At the time of the application, the dockyard operation was in the course of being relocated to the new site at Tsing Yi Island. The dockyard site was occupied by workshops, dry docks, open storage areas, godown, miscellaneous general industrial buildings and two blocks of

¹ see Appendix 3 for a chronology of this case

² 1 hectare (ha) = 10,000 m² = 2.47 acres

³ see Appendix 4 for definitions

⁴ see Appendix 5 for location plan of the dockyard site

staff quarters. The site was composed of a number of lots held under different leases, the oldest of which was granted in 1864 for a term of 999 years. The lease conditions governing the uses of the lots were generally related to dockyard purposes, ship building and industrial uses although two lots were held under leases of unrestricted user condition. The majority of the dockyard area was zoned "Industrial" on the Outline Zoning Plan No. LK9/27 in force at that time. Hence a rezoning of the land concerned was required before redevelopment could proceed.

Refusal by Government

Whampoa's proposal was not favoured by government. When the case was considered by the then Public Works Department Conference in February 1979, it was generally considered that the existing roads in the vicinity of the dockyard site could not accept any increase in traffic, which would arise from any form of redevelopment scheme. From a highways viewpoint, it was considered that industrial development would generate more traffic than would residential development. However, it was also noted that industrial land was in short supply in the urban areas. The Conference therefore agreed that the scheme should be rejected and that an investigation be made as to the possibility of improving the road network in the vicinity of the Whampoa Dockyard in order to cater for future increase in traffic.

A road network designed to serve the development on the dockyard site and also the future development on the possible reclamation to the west of the dockyard, the Hung Hom Bay Reclamation, was worked out by Highways Office by August 1979. The highway proposal was considered by Public Works Department Conference and the Conference decided that it should be put to the Company that development for solely industrial purposes would be permitted to a plot ratio of five, subject to the Company paying for the necessary road improvements, both within and outside

the dockyard area.

The Public Works Department Conference decision was formally communicated to Whampoa in a letter signed by the then Director of Public Works in September 1979. The letter stated that the Company's proposal was considered basically unacceptable and that government considered that there was no justification for the "Industrial" zoning of the dockyard land to be amended (which would be required if the redevelopment scheme is to proceed) for two principal reasons:

- (a) industrial land in the urban areas was in short supply and where it existed should be encouraged to redevelop to provide further employment opportunities for the urban work force;
- (b) to introduce further residential accommodation in Hung Hom district would aggravate the demand for further G/IC facilities,¹ particularly public open space, which were already in short supply in the area.

The letter also pointed out that no objection was received from the Company during the most recent gazetting for public objection of the relevant Outline Zoning Plan, which was in October 1975.

Revised Scheme and Road Improvement Proposals

Whampoa rejected government's proposal for pure industrial development limited to a plot ratio of five. The Company then entered into negotiations with government to find out what other redevelopment would be permitted. Following initial discussions with the Town Planning Office and Highways Office, in December 1979 the Company commissioned Yuncken Freeman HK and Maunsells Consultants Asia to prepare a traffic

¹G/IC facilities- government, institution and community facilities, e.g. public open space, school, community centres etc.

planning study for the dockyard area. At the same time, Wong & Ouyang & Associates was appointed as architect for the redevelopment project.

During the negotiations, the Company tried to establish government's views on the project. Discussions with the Town Planning Office revealed that government appeared to have moved away from the requirements of having as much industrial land usage as possible and be satisfied with a more restricted industrial user provided this user was of godown type making maximum use of the deep water frontage area available. An alignment for a proposed north-south highway and other associated road proposals meeting the traffic needs generated by the redevelopment was also formulated after consultations with the Highways Office.

Meanwhile, the Company was proceeding with the construction of the Whampoa Terminal Building, next to the JDH Centre, at the south-eastern corner of the dockyard site. The building was intended to serve as a container transfer station, which would make good use of the seafront access for direct sea-to-land transfer of goods from ships.

A section of the proposed north-south highway would run through the site of Green Island Cement Company Limited (Green Island) near Whampoa Dockyard. For this, Hutchison Whampoa Limited, the parent company of Whampoa, entered into discussions with Green Island on the effects of the road proposals in relation to Green Island's redevelopment scheme. By March 1980, authority was obtained from Green Island for approaching government on the road proposals, on the condition that government would grant an area of land to Green Island equal to that being surrendered to accommodate the new road and other associated conditions.

In April 1980, Whampoa submitted a revised redevelopment scheme to government with a land use mix of 58% for commercial/residential, 6.1% commercial and 15% waterfront godown/industrial uses. The scheme

aimed for an overall plot ratio of approximately 6.75 and the residential portion would accommodate about 34,000 persons. A traffic study report together with a set of very extensive road improvement proposals were also submitted. Whampoa indicated that the Company was prepared to consider to carry out the road improvement works subject to government negotiating suitable amendment to the Outline Zoning Plan and an agreement on a reasonable form of modification premium which would allow for the actual cost of the road works involved to be deducted.

The revised proposal was considered by Public Works Department Conference in July 1980. The proportion of commercial/residential development as proposed was considered excessive and it was suggested that the total combined commercial/residential development should be reduced to 33.5% of the area, with corresponding increases in the proportion of land for G/IC uses and for roads. It was also recommended that the area proposed for godown/industrial uses should be limited to godowns and that the maximum plot ratio for commercial/residential and godown use should be 6.75 and not the full ratio obtainable under Building Ordinance. Finally it was proposed that residential flats should not be less than 70 m². Based on these planning criteria, Whampoa was then asked to reconsider the redevelopment scheme.

Further Negotiations and Third Submission

Whampoa found government's counter-proposal unacceptable as the intensity of commercial/residential development would be too low. Subsequently, the Company held further discussions with the Town Planning Office with regard to the planning requirements for G/IC and open space facilities and with the Highways Office on traffic implications and road proposals. Meanwhile, Whampoa was also pressing government hard to have the boundary revision for Green Island's site finalised such

that Green Island's redevelopment scheme would not be jeopardized by the agreed north-south highway proposal. At this stage, it became increasingly urgent from Whampoa's viewpoint to agree with government a mutually acceptable redevelopment scheme as the dockyard operation would be moved to Tsing Yi Island and the site would be vacant by September 1980.¹

In December 1980, Whampoa submitted a further revised redevelopment scheme after extensive consultations with Town Planning Office and Highways Office. The proposal was considered by Public Works Department Conference in April 1981. The land use pattern of the latest proposals from the Company was of 48.7% of land for commercial/residential at a plot ratio of 7.64 and 15% for godown use at a plot ratio of 7.62, with the rest area for G/IC facilities, open space and roads. The residential portion would provide 7,232 flats at average size of 88.8 m² for 28,900 persons. The proposed commercial and industrial (godown use only) gross floor area were 163,054 m² and 246,798 m² respectively.

As a result of the discussion between Highways Office and the Company's traffic consultant, Whampoa had proposed a phased development arrangement. Stage I, consisting of 5,216 flats, 110,332 m² of commercial gross floor area and all 246,798 m² of godown, would commence early together with the completion of the "minimum road network" as agreed between Whampoa and Highways Office. The remaining commercial/residential developments constituted Stage II and would be implemented at a later date with the completion of one of the proposed new roads to link up with Salisbury Road or Sung Wong Toi Road.

Submission Approved by Government

From the town planning viewpoint the proposals were considered

¹Building, Development and Construction Review. South China Morning Post, June 1980.

acceptable as being self-sufficient as regards G/IC provision. The traffic generation was regarded as acceptable and the deficit of industrial land, caused by the redevelopment, was not considered undesirable in view of the overall surplus of industrial land in Kowloon and New Kowloon. The redevelopment scheme together with the phased development proposals were then approved in principle by Public Works Department Conference and it was agreed that the proposals should be submitted to the Land Development Policy Committee for approval.

In its meeting in May 1981, Land Development Policy Committee approved the redevelopment scheme and the phased development proposals subject to the following conditions:

- (a) the required G/IC and open space facilities were provided within the redevelopment scheme in step with the implementation of the redevelopment; and
- (b) the Company would carry out the works for the "minimum road network" subject to an adjustment in the premium.

The Committee further agreed that amendments to the draft statutory plan should be initiated and submitted to the Town Planning Board for agreement.

The Land Development Policy Committee's decision was formally communicated to Whampoa in July 1981 and at the same time the necessary submission to the Town Planning Board for the corresponding zoning amendment was also being prepared. One of the conditions contained in the approved scheme differed from that in Whampoa's submission and it was the rate of car parking provision for the residential portion of the redevelopment. Whampoa intended to provide car parking at the rate of one space per three flats. This rate was accepted by Public Works Department Conference as previously negotiated and agreed, but it was not in agreement with Land Development Policy Committee's latest recommendation

of not more than one space per five flats for large individual lots. Finally, Land Development Policy Committee's recommended rate, i.e. not more than one space per five flats, was adopted in the approved redevelopment scheme.

Soon afterwards, Whampoa proceeded with the development of the initial phases (Phase 1A and 1 B which later became Site 1 and Site 3) on the area of land which was unrestricted in use by the Outline Zoning Plan. The relevant building plans were submitted to the Building Ordinance Office in August 1981.

Argument over Car Parking Provision and Town Planning Board's Approval

Subsequently, the Town Planning Board agreed to rezone the main parts of the dockyard site from "Industrial" to "Other Uses" and annotated "Comprehensive Redevelopment Area". The draft amended Plan No. LK9/27A was gazetted in December 1981 under Section 7 of the Town Planning Ordinance. Following this, Whampoa made an application for permission under Section 16 of the Town Planning Ordinance in January 1982.

The application together with the development details were circulated for departmental comments. The redevelopment scheme was also presented to Kowloon City District Board in February 1982 for information. The District Board generally welcomed the redevelopment scheme but the rate of car parking provision at one space per five flats was criticised as too low. The general view was that the flats of average size of about 90 m² were an expensive type of accommodation and car parking at the rate of one to five might not be adequate. Whampoa lost no time in taking up this issue with government and wrote to the Secretary of the Town Planning Board to reiterate their stand of being more than happy to provide a higher rate of car parking provision than that approved

by the Land Development Policy Committee.

When the application was considered by the Town Planning Board in April 1982, the issue of the rate of car parking provision in the redevelopment scheme was raised again. It was suggested that a ratio of one space to three flats or one space to four flats might be more realistic. The Board decided that a decision on the application should be deferred until the Highways Office had made a further investigation to discover whether an increased rate of parking provision of one space to three flats would be acceptable without overloading the local road network.

Highways Office and Transport Department (the traffic engineering divisions were transferred to Transport Department on April 1, 1982) were consulted on Town Planning Board's suggestion. After taking into account various considerations including road capacities, development/redevelopment potential in the surrounding area, adequacy of public transport facilities and the existence of two under-utilised multi-storey car parks in the vicinity, it was recommended that the increase in car parking provision be limited to a more tolerable figure of one space per every four flats.

The application was finally approved by the Town Planning Board in May 1982 with a rate of car parking provision of one space per four flats. A number of conditions included the phasing of building and road works, and the provision of the necessary G/IC and related facilities. Whampoa was formally notified in June 1982 of Town Planning Board's approval. Following this, the Lands Department started preparing the conditions and terms for the surrender/regrant of sites for the redevelopment. The proposed surrender/regrant was considered by District Lands Conference in October 1982 and Lands Department entered into correspondence with Whampoa with a view to formulate the basic terms in accordance

with the District Lands Conference's decision. No agreement, however, was reached on the basic terms.

Proposed Amendments to the Approved Scheme

In March 1983, Whampoa approached government with proposed amendments to the approved redevelopment scheme. The major changes proposed were:

- (a) the deletion of the godown site of 2.1 ha to be replaced by an additional 1,166 flats at an average size of approximately 77 m², and an additional 23,000 m² gross floor area of commercial accommodation;
- (b) a relaxation in the number of flats in the agreed scheme from 7,232 to 10,869 thereby reducing the average flat size from 88.8 m² to 59 m².

The net result of (a) and (b) would be to increase the total number of flats from 7,232 to 12,035, with an estimated resultant increase in population of 19,200 to 48,100. The maximum gross floor area proposed were 732,200 m² residential and 186,054 m² commercial.

The reason for the proposed amendments was that Whampoa considered the approved redevelopment scheme not viable in the light of the prevailing economic climate. The Company had considerable difficulty in marketing the godown facilities at the recently completed Whampoa Terminal Building at the southeastern tip of the dockyard site.¹ The Company's experience in marketing godown facilities elsewhere in the territory indicated that demand would remain low for a long time to come. Furthermore, the Company was of the view that the existing and future market could not absorb the originally proposed 7,232 flats of average

¹ occupation permit for the Whampoa Terminal Building was issued at the end of 1982- Hutchison Whampoa Limited Annual Report 1982

size of about 90 m². The Company believed that the Hung Hom district requirements would be for flats of a much smaller size.

To cater for the additional population, Whampoa proposed to provide additional schools at podium levels in proposed commercial developments. However, no additional open space or G/IC facilities were proposed. Instead Whampoa asked for certain concessions mainly by suggesting to include the Tai Wan Shan Park and Swimming Complex (immediately to the east of the dockyard site) and the adjacent G/IC facilities in calculating open space and G/IC facilities for the scheme.

Further Modifications and Final Approved Scheme

Lands and Works Conference (which replaced Public Works Department Conference), in considering the proposed amendments in May 1983, agreed that any overall increase in population was acceptable on condition that sufficient provision of local open space and G/IC facilities in accordance with Hong Kong Planning Standards and Guidelines¹ were met. Conference also rejected Whampoa's suggested method for calculating the provision of open space and G/IC facilities.

In the ensuing departmental consultations prior to the resubmission to Town Planning Board, there were some arguments between Whampoa and the Town Planning Office on the method of calculating open space provisions both at street and podium levels and also on the calculation of population per flat. For the latter issue, Whampoa assembled relevant statistics from the 1981 Census and also carried out a research in the Hung Hom area to support their claim of correctly using an occupancy rate of 3.5 persons per flat as against the value of four persons per flat adopted previously. The occupancy rate to be used would affect the design population of the redevelopment scheme and hence the level

¹Hong Kong Planning Standards and Guidelines- a set of standards and guidelines concerning various community facilities adopted by government for planning purposes

of provision of open space and G/IC facilities. On the other hand, Transport Department considered that the rate of car parking provision at the rate of one space per four flats was high in view of smaller flats currently proposed and recommended a rate of not more than one space per five flats.

Subsequently Whampoa submitted a Section 16 application in July 1983 with a slightly modified scheme. The proposal envisaged a total of 11,794 flats with a total residential gross floor area of 732,200 m² and a total of 177,000 m² for commercial. The application was considered and rejected by the Town Planning Board in September 1983 for the following reasons:

- (a) open space provision was inadequate and unacceptable;
- (b) it was too massive a development resulting in an unacceptable level of population increase;
- (c) the rate of car parking provision at one space per four flats was high in view of smaller flats being proposed;
- (d) the road layout was unsatisfactory.

Following a flurry of discussions with government Whampoa modified the redevelopment scheme and requested for a review under Section 17(1) of the Town Planning Ordinance. The total number of flats was reduced to 11,224 with maximum residential gross floor area of 710,000 m² and commercial gross floor area of 157,000 m². The total provision of open space was slightly increased and the rate of car parking provision was proposed to be one space per five flats. Adjustments were also made to the road layout and disposition of the residential towers. At an occupancy rate of four persons per flat, the total population would be 44,896 persons. The revised scheme was finally approved by the Town Planning Board in October 1983. Pertinent details of the initial scheme and subsequent revisions including the final approved scheme were summarized in Appendix 6.

Preparation of Conditions of Exchange

In parallel with the several rounds of revision to the redevelopment scheme, planning and design on the agreed "minimum road network" was carried out by the two consultants appointed by Whampoa. By December 1983, the detail design for the very extensive roadworks was basically completed. Whampoa and Highways Office were then able to agree on the costs of the roadworks which would be deducted from the premium to be paid. The total costs for the five projects, which included a north-south running highway, a (ground level) waterfront road partly to be constructed over the sea, two flyovers and an underpass together making up the "minimum road network", were estimated to be HK\$178.2 million at January 1984 prices.

Subsequent to the Town Planning Board approval, Lands Department commenced with the formulation of the draft basic terms and consulted various relevant departments in the process. In February 1984, the draft basic terms were discussed at the District Lands Conference. The basic terms generally included the conditions and requirements laid down by the Town Planning Board and various departments. In May 1984, the finalised basic terms together with assessed premium (HK\$390 million) were communicated to Whampoa for agreement.

Upon reaching agreement on the quoted terms and premium the Registrar General Department was brought in for the documentation of the Conditions of Exchange. At the same time, Highways Office was proceeding with the gazetting of the five road projects making up the agreed "minimum road network" under the Roads (Works, Use and Compensation) Ordinance. Of the three projects already gazetted at the time of writing, the Hung Hom Wan Street Extension project (the waterfront road) was objected to by the nearby residents, mainly those of the adjacent Hung Hom Bay Centre. These objections would be presented to and considered

by the Executive Council. It was recommended to Executive Council that these objections should be rejected and it was highly unlikely that these objections would be upheld.

However, concern was expressed on the eventuality of possible objections to one of the flyover projects (which was an elevated road running directly over an existing road with buildings on both sides) being upheld by the Executive Council. Under such a situation, the project might have to be revised substantially or abandoned altogether. This would mean that Whampoa would be prevented from carrying out this particular flyover project on behalf of government and would be forced to breach the Conditions of Exchange.

The problem could be overcome by executing the Conditions of Exchange after the road projects were gazetted but this would cause considerable delay to the signing of the agreement. This was considered unacceptable as Whampoa was very eager to go ahead with the project and government was also anxious about the early collection of the HK\$390 million premium. Finally, this legal technicality problem was bypassed by government and Whampoa entering an undertaking whereby in the event of an objection being upheld by the Executive Council, then government could alter the Conditions of Exchange but only insofar as the road schemes were concerned. Under this arrangement, Whampoa would also have to refund to government or be compensated the difference in amounts based upon agreed costs.

Because of the technicality problem, the document of the Conditions of Exchange took a few months longer to be finalised. In November, Whampoa's architect submitted a revised building and road works construction programme to replace the approved one (accompanying the Section 16 application in 1983). In the original programme Whampoa proposed to complete the redevelopment (altogether 12 sites) before mid-1992 with

proposed occupation of the various sites between 1986 and 1992. However in the revised programme, the pace of development was much hastened with proposed occupation of the first site at end 1985 and the last site before 1991. The corresponding roadworks programme had also been brought forward. The revised programme was agreed by government.

Signing of the Agreement

Finally, the agreement concerning the Conditions of Exchange was signed on December 14, 1984 and the premium of HK\$390 million was also paid on the same day.¹ At this time, the green light for the redevelopment scheme to proceed was officially given although the formation work for several sites had already been completed. In fact, a few days after the signing of the agreement, the Managing Director of Whampoa signed the contract for the foundation work for Site 2 of the redevelopment scheme.

Just before the signing of the agreement, Whampoa's architect approached government to discuss about the staged occupation of the 18 residential towers of Site 2 of the redevelopment scheme. According to the agreed programme, the waterfront road and a vehicular underpass should be completed with the occupation of Site 2. Whampoa was proposing that the occupation of Site 2 be staged, with government permitting occupation of the first 11 towers approximately six months prior to the completion of the waterfront road and underpass (the rest seven towers could not be completed earlier because the site was occupied and not yet available for work to begin). After several rounds of discussion, government conditionally agreed to consider giving such permission.

Sale of Flats

On April 9, 1985, the first batch of flats of Whampoa Garden

¹ see Appendix 7 for pertinent terms in the Conditions of Exchange

(Site 1 of the redevelopment scheme) was put up for sale. Flats of sizes ranging from 68 m² to 79.8 m² (the majority of the flats were of size 79.8 m²) were selling for HK\$6,265 per m² (HK\$582 per ft²) and up. The response was most enthusiastic and queues were formed at the sale offices. About 60% of the 600 flats put up for sale were sold on the first day.¹

¹Hong Kong Economic Journal, April 10, 1985.

CHAPTER IV

PROBLEMS AND DISCUSSIONS

After studying the case history of the Whampoa Dockyard Redevelopment, it would be appreciated that large scale redevelopment schemes are indeed complex projects requiring experience, skills and patience in handling to ensure success. However, the Whampoa redevelopment project might have been a truly special case and other cases would probably be less complicated. Take the Taikoo Shing (which is redevelopment of the former Taikoo Dockyard) as an example. The initial proposal was submitted in August 1973 and by March 1975 the scheme was approved by Public Works Department Conference. Where in the case of Whampoa Dockyard, it took nearly three years to get through Public Works Department Conference and a further year before first receiving Town Planning Board's approval. Also, there were a lot more terms and conditions imposed in the Conditions of Exchange for the Whampoa project (see Appendix 7).

The complexity of the Whampoa Dockyard Redevelopment makes the project an excellent reference case for examining the various problems likely to be encountered in large scale redevelopment schemes and for formulating the possible solutions. In this chapter, we shall follow the course of a proposed redevelopment scheme and identify the major problems to be tackled in each of the three stages of the project:

- (a) Formulation of proposal
- (b) Negotiation with government
- (c) Execution of the redevelopment scheme

For simplicity sake, we shall use a redevelopment project of similar nature

to Whampoa Dockyard Redevelopment, i.e. an industrial site to be redeveloped into a residential/commercial complex, as an example.

Stage I - Formulation of Proposal

Sites that have redevelopment potential are normally lots situated in the urban areas previously used for industrial purposes. In Hong Kong, almost all redevelopment sites belong to this category. Suppose a company has a large tract of such land that has redevelopment potential, the decision on whether to redevelop or not and when to do so would be dependent on the following factors:

- (i) management's policy
- (ii) financial viability and desirability

Management's Policy

During the boom days of the early eighties, the fast and high profits obtainable from property development had attracted many originally non-property companies to diversify into the property field. Some did well and earned substantial profits while for some firms the move proved to be a costly, or even fatal, mistake. Conservative firms would tend to stay within their own businesses. Other firms may be more aggressive and would venture into any undertaking that could earn a quick profit. In most cases, management's policy would be crucial in deciding which course of action to take.

A decision to go ahead with a redevelopment scheme must have a prerequisite the full support of top management. This would ensure that the necessary resources (both finance and staff) and cooperation from other divisions would be forthcoming whenever required. Supposing a company has already committed to a redevelopment, it would be desirable from a management's viewpoint to set up a special division within the firm or even a new subsidiary company to undertake the task. Take the

Whampoa case as an example, with the dockyard activities transferred to the associate company Hong Kong United Dockyards Limited, the Hong Kong and Whampoa Dock Company Limited has become principally a property owning and holding company.¹ Individual redevelopment packages are undertaken by subsidiary or associated companies.

Financial Viability and Desirability

Prior to commitment by management, a redevelopment scheme would have to be examined carefully with respect to its financial viability and desirability. A redevelopment scheme could only be justified if it could bring at least reasonable profits in relation to the degree of involvement. In the Whampoa Dockyard Redevelopment case, the potential profit of the entire scheme was estimated to be around HK\$3 billion (if all the flats were put up for sale at that time), based on estimated total revenue and costs of HK\$7 billion and HK\$4 billion respectively.¹ Such a profit potential, which was based on the assumption that there would be no further downturn in the property market, is indeed very high if we consider that the actual capital investment put up by Whampoa would be much less than HK\$4 billion, as financing of the scheme will also be aided by contractors' project financing and revenues from pre-sales apart from Whampoa's internal cash reserves.²

The profit potential of a redevelopment scheme would be dependent upon the associated costs and the projected revenues. These figures in turn would be dependent upon the redevelopment potential of the site concerned and the state of the property market. Therefore, it would be essential to have an accurate assessment on both these aspects in any financial feasibility study for redevelopment schemes.

¹South China Morning Post, December 15, 1984.

²ditto

Redevelopment potential

For an ordinary site, the development potential is usually governed by the Building Ordinance. Dependent on the type of site and height of the building proposed, the maximum permitted residential plot ratio ranges from eight to ten and non-residential plot ratio is 15. However, such high plot ratios would not be attainable in large sites. The Building Authority has the power to refuse to give his approval to plans for building works to be carried out on a site which in his opinion ought to be provided with streets having adequate connection to a public street. The purpose of this control is to ensure that there shall not be abnormal density of development on large sites where normal road patterns do not exist. In connection with this practice, any site that is 3,716 m² or over in area is considered a "large site".

In any case, for large sites that are typical in redevelopment schemes, a system of internal roads must be provided and these roads would not be counted for as site area in the calculation of plot ratios for buildings proposed. Moreover, G/IC facilities and open space would normally be required by government and these could further reduce the redevelopment potential (in terms of revenue generating building floor areas) of the site. At the end of the day, there is always government control which would not permit developments with abnormally high population densities.

Population density

I believe a more practical approach for assessing the redevelopment potential of any site is to start with the population density. An inspection of the population densities of housing projects undertaken by government would give an indication of what sort of figures would be accepted by government as appropriate. The Housing Department normally uses a population density standard of 2,700 persons per ha in

the designs for public housing estates.¹

It is stated government housing policy that public housing estates and Home Ownership Schemes² are for accommodating the lower and lower to middle income groups while the middle income group and above should be able to afford private housing. The three types of housing are meant to represent different levels of accommodation, although it could be argued that the quality of public housing in many cases is in fact higher than that of certain types of private housing.

Based on the foregoing principle, it is unlikely that government would accept a redevelopment scheme with a planned population density that is in excess of the design standard used by the Housing Department. A check on the final approved proposal for the Whampoa Dockyard Redevelopment (planned population density 2,375 persons per ha) lends support to this argument. This view is further reinforced by similar data from a recently completed redevelopment scheme Provident Centre (1,450 flats on 2.58 ha site, density = 2,250 persons per ha).³

Once the target population is fixed, the total number of flats could be estimated based on the standard occupancy rate and then the total residential floor area could be assessed with the intended average flat size. The total redevelopment potential could then be worked out by including an appropriate amount of commercial floor space. It can be seen that it would be advantageous to build larger flats based on this approach as the total saleable floor area would be higher. This appears to be in line with government policy. In fact in the Whampoa Dockyard Redevelopment case, a condition imposed by government on

¹Kowloon Central Estates Redevelopment, Planning Brief & Concept Plan, Housing Department, September 1984.

²Home Ownership Scheme- under this scheme, government build flats and sell them to qualified (with family income below a certain limit) applicants.

³based on occupancy rate of four persons per flat

the second submission was that the sizes of the residential flats should not be less than 70 m². Provident Centre is a fine example of a redevelopment scheme designed apparently based on this principle- over half of the flats built are over 110 m² and the smallest flats are also over 75 m².¹ However, it would be more important that the flats built would meet market demand and there is a limit to the advantage to be gained from building larger flats.

Other considerations

Other factors would also have to be taken into consideration like the location of the site, road connections to the area and restriction on the height of buildings. A comparison between Whampoa Garden and Taikoo Shing provides interesting contrast:

Whampoa Garden

Site - site of 18.9 ha on the seafront of congested Hung Hom area with poor road connections, airport height restriction limit on buildings 51.82 m

Brief development profile -11,224 flats, open space 33% of total site area, car parking provision at one space per five flats

Taikoo Shing

Site - site of 21 ha on seafront of Quarry Bay with direct road connections to the Island Eastern Corridor, no effect of airport height restriction on buildings

Brief development profile -about 10,000 flats, open space 72% of total site area, car parking provision at one space per 2.5 flats

In the Whampoa Garden case, because of the height restriction the buildings proposed cannot be more than 17 storey high and hence

¹ Provident Centre sale brochure

the buildings would take up a lot more site area. More roads would also be required to separate the building sites to avoid massive clusters of residential towers. Sites are also reserved for four schools. The amount of site area available for use as open space is hence much reduced. Moreover, the rate of car parking provision is restricted by government to a low level because of the inadequacy of roads in the area. Altogether these unfavourable factors make Whampoa Garden an inferior estate when compared with Taikoo Shing, although Whampoa Garden itself would probably be the highest quality residential estate within Hung Hom area. Needless to say, the quality of the development would in turn affect the profit potential of the scheme.

Property price levels

As a large scale redevelopment scheme would normally extend over a number of years, it would be prudent not to use short term surges or dips in property price level to estimate the total profit potential of the project. A more reliable assessment would be one which uses the long term trend prices or other indicators like how many times the average wage level. This is in itself a complex topic and we will not go into details here.

Costs

In estimating the cost of the project, apart from including the usual costs associated with property development like cost of construction (both buildings and associated facilities), professional fees, administrative expenses, staff costs and financial charges, for a redevelopment scheme we would also have to take into account the premium to be paid to government, cost of facilities to be built and handed over to government and the replacement costs, where applicable, for the facilities previously standing on the redevelopment site.

The exact assessment on how much premium is to be paid

to government is a closely guarded secret of Lands Department and it is understood that there is no hard and fast rule. However, the amount of premium generally is an indication of the difference in the prevailing values of the land under the original and new uses with a reasonable profit margin allowed on the part of the developer. In the case of Whampoa Dockyard Redevelopment, the effective premium of about HK\$600 million (actual premium in cash + cost of roadworks to be built for government and associated professional fees) was around one fifth of the developers estimated total profit of HK\$3 billion.

Assessment on profit potential

The estimated profit for the Whampoa Dockyard Redevelopment of HK\$3 billion was a very crude one. It assumed that all costs were incurred and all revenue were collected at the same time. The actual expected profit potential could be more accurately assessed with the present value method calculated according to a proposed development programme. The development programme should be a realistic one in the sense that it is attainable and desirable from financial and management's viewpoints. However, there is also no point in going into too much details as there are a great number of uncertainties including government's response to the proposal and the future property market conditions which may well invalid the estimate to certain extents. In any case, this initial proposal and estimate would form a useful basis for future modifications.

Funding

In drawing up the redevelopment scheme and its implementation programme, it would also be necessary to look into the funding arrangement for the project. While it may be premature to raise funds from outside sources for the project at this stage, the working capital required to implement the redevelopment scheme according to the programme and

the related cash flow conditions should be estimated for consideration. The information obtained could be used for assisting to determine whether the project should be funded by internal cash reserves (if available), equity financing, borrowing or some other means. The actual decision would also be dependent upon a host of other factors, the more important of which are interest rates, prevailing economic situation, other investment opportunities and political considerations.

In the Whampoa Dockyard Redevelopment case, the Company did not intend to borrow from outside and the scheme would be funded by the Company's internal cash reserves as well as contractors' project financing and revenues from pre-sales.¹ In fact, reserving funds for the redevelopment scheme was part of the reason why Whampoa's parent company, Hutchison Whampoa Limited, held large amounts of liquid funds in recent years. The group's bank balances and other liquid funds stood at HK\$1,467 million and HK\$2,417 million at the end of 1982 and 1983 respectively.²

As we shall see in the next section, negotiation with government would normally result in changes in the redevelopment scheme, and hence different funding requirements. It would therefore also be necessary to review the funding issue from time to time. However, a final decision should only be made when the redevelopment scheme has generally been finalised and after taking into account the various relevant considerations.

Stage II - Negotiation with Government

As a company has firmed up a redevelopment scheme as the most profitable and desirable proposal within the limitations of the various considerations, the next step would be to approach government to obtain

¹ South China Morning Post, December 15, 1984.

² Hutchison Whampoa Limited Annual Report, 1982 and 1983.

approval for implementation. This could be a very straightforward matter if the proposal finds immediate acceptance with government. For example, the China Motor Bus Company's depot site in North Point was already designated a Comprehensive Redevelopment Area¹ a few years ago, as the rezoning was strongly supported by the government, although at the most recent announcement the Company was still not certain about when redevelopment could commence. For schemes which would be readily accepted by government, the proposal would just have to go through the process described in the earlier part of this report and it may take between 1 to 1½ years before getting the official green light to go ahead.

Clearly, the importance of preparing an appropriate initial submission cannot be overemphasized. Little negotiation with government would be required if the proposal is approved outright. In other cases, the wealth of information contained in the Whampoa case would help to throw light on how to get the best of all possible deals during negotiations with government.

Dealing with Government

As we have seen in Chapter II, redevelopment schemes will have to go through a tedious process and be approved by the Lands and Works Conference, Land Development Policy Committee and the Town Planning Board sequentially. The former two are government organizations and the third one is a statutory body. One very important point to be noted is that the chairman for all three organizations is the Secretary for Lands and Works who is also the head of the lands and works group of departments.

For a redevelopment scheme, the most crucial step is to get the approval of the Lands and Works Conference. The Land Development

¹North Point Outline Zoning Plan No. LH8/35D

Policy Committee is mainly a coordinating body within government and it would seldom turn down proposals previously approved by Lands and Works Conference unless the proposals are in contravention to the overall territorial land development strategy. The views of the Town Planning Board are more difficult to judge beforehand because of the presence of unofficial members on the Board. However, the Board relies heavily on the departmental comments collected in the circulation prior to consideration and unless the redevelopment scheme was fundamentally unacceptable in one or more aspects it would seldom refuse to grant approval. Furthermore, should one or more aspects of the scheme were found unacceptable, the developer can always modify his proposal appropriately and request for a review.

The fact that the Secretary for Lands and Works is the chairman of the three organizations probably help to further explain why the Lands and Works Conference is the single most important hurdle to get over. Suppose a redevelopment scheme is found unacceptable by the Lands and Works Conference, it is difficult to imagine, bearing in mind the operation of the government bureaucracy, how the same proposal could meet the approval, or even receive the consideration, of the Land Development Policy Committee.

The importance of the Lands and Works Conference was clearly illustrated by the Whampoa Dockyard Redevelopment case. In the previous chapter we can see that it was mainly the Lands and Works Conference which either rejected the redevelopment proposals or imposed all sorts of conditions on the developer. If a redevelopment scheme is to receive favourable consideration at the Lands and Works Conference it should first meet the basic requirements of the relevant departments.

Areas of Concern

Of all the disciplines involved in the commenting procedure,

past experience indicated that the town planners and the traffic engineers were the ones most likely to have adverse comments on redevelopment schemes. Not only was this true in the Whampoa Dockyard Redevelopment case, but also redevelopment requests from the owners of the Kowloon Tong Garden Estate¹ dated from the early seventies were turned down time and time again on planning as well as traffic grounds. The town planners are mainly concerned about the loss of planning control and the possible shortage of local G/IC facilities caused by increase in population brought about by redevelopment schemes. While the traffic engineers usually are worried about the additional traffic generated from the redevelopment causing congestion on the adjacent existing road network which is often already loaded to capacity. It is therefore highly recommended that special attention should be paid to address these areas of concern in the preparation of proposal and subsequent negotiation with government.

The Right Person for the Job

Suppose the initial proposal of a redevelopment scheme was rejected by government. The developer would have to approach government and find out what changes would be necessary in order to make the proposal more acceptable to government. From experience, this could never be satisfactorily achieved through correspondence. Firstly, the response to written enquiries from government departments would normally be slow. Secondly, most government officials are unwilling to commit in writing what would be acceptable. Rather, the normal practice is that the developer would have to send in the proposals for consideration by relevant departments.

Such consultations should best be done through personal contacts. Theoretically, this work could be taken up by the Authorized

¹Kowloon Tong Garden Estate is the group of garden houses in Kowloon Tong (not including St. George's School) bounded by the railway line, Cornwall Street, Waterloo Road and Boundary Street.

Person. However, for first-hand information and direct response, it is highly recommended that the developer's representative in charge of the redevelopment, the project director, should get in touch directly with the concerned government officials. It would also be desirable to set up a project team, incorporating staff of the architect if necessary, to assist the project director in the negotiations with government.

The skills and experience of the project director in handling the negotiations with government would have an important bearing on the success or otherwise of the redevelopment scheme. To be capable of dealing with government officials effectively, the project director should, apart from being proficient in the property field, be familiar with firstly the procedure with which development proposals are processed within government and secondly government's general stand on these matters. However, large scale redevelopment schemes are such rare and unusual massive projects for a firm and there is a dearth of personnel experienced in handling such projects. As it turns out, ex-government officials who used to be involved in dealing with development matters become a logical source of candidates for project director of redevelopment schemes. In fact, it is not uncommon, especially during a property boom, to see high ranking government officials with a similar background joining property development companies upon retirement or even before retirement.

In the case of the Whampoa Dockyard Redevelopment, Mr. J.D. Johnston, the Managing Director of the Hong Kong and Whampoa Dock Company Limited is also an ex-government official. Prior to joining Whampoa as the Director and General Manager of the Property Division, Mr. Johnston was the Principal Land Agent with government and had 19 years of experience in the local property field.¹ By 1980, he became

¹South China Morning Post, February 28, 1978.

Executive Director and General Manager of Whampoa. He personally oversaw the Whampoa Dockyard Redevelopment project right from the very beginning when the initial proposal was first submitted to government. He had numerous meetings with various government officials, some of whom he knew as personal friends, including the Secretary for Lands and Works (then Director of Public Works), town planners, traffic engineers, high-ranking officials and junior officials and those in between.

Market Situation and Other Influences

Readers would recall that Whampoa did not proceed with the redevelopment scheme approved by the Town Planning Board in 1982 but instead applied to modify the scheme. The reason given was that godown space was no longer in demand and the situation of the property market was such that large flats would be difficult to sell. In retrospect, it appears that there could not be a wiser decision.

Apart from the self-evident reason of Whampoa's own difficult experience in marketing their newly completed Whampoa Terminal Building, we have to relate the decision to the situation of the property market and also the social and economic conditions at that time. Recall that the Hong Kong property market took off at the end of the seventies and reached the peak in around late-1981. By mid-1982, property prices were beginning to fall off. Political jitters on the future of Hong Kong brought about by the British Prime Minister's visit to Beijing in September 1982 finally triggered the inevitable collapse of the overheated property market. The economy of Hong Kong also began to enter difficult times. Industrial buildings and luxurious flats were the hardest hit sectors in the property market.¹

Had Whampoa proceeded with the scheme approved

¹ based on information in Shui On Quarterly, December 1984.

by the Town Planning Board in 1982 the following would have resulted:

- (a) the premium to be paid to government would be much higher than the present figure of HK\$390 million as land prices were at an all time high at the time of assessment;¹
- (b) godowns would have been built on the prime waterfront site and would remain unmarketable for a long time to come; and
- (c) large flats would have been built, at least in the initial stage, and these would be difficult to sell in the subsequent property market downturn.

All in all, it could have been a very costly mistake for Whampoa and its parent company, Hutchison Whampoa Limited.

The above clearly illustrate the importance of keeping a watchful eye on the market situation and also other social and economic factors. This problem is common to all property development due to the long lead time of the industry. However, the rigidity regarding development pattern and its programme inbuilt with the agreement with government would make it more difficult for the developer to try to act responsively to market demand variations than in ordinary development.

Government Housing Policy

Apart from the problems associated with negotiating with government and the need to closely monitor the market situation, it would also be important to keep in view government housing policy which would affect the strategy to be adopted in redevelopment schemes. Many private developers have expressed concern over the relaxation of restrictions on application for government Home Ownership Schemes (HOS) effected last year (1984). Together with the planned expansion of the Home Owner-

ship Scheme/Private Sector Participation Scheme (PSPS)¹ to provide 10,000 units each year from the financial year of 85/86 onwards, developers are feeling that competition from government is more direct than before.

Upon receiving complaints from private developers about the possibility of unfair competition caused by the HOS/PSPS (land costs are excluded from the sale prices of the flats and hence they are slightly cheaper than flats marketed by private developers), government had recently reassured that the private sector's role in providing homes for the people would not be prejudiced and there were no plans for further expansion of HOS/PSPS. However, the 10,000 units per year figure is already 37% of the average annual production of private residential units during 1979-1983² and is expected to have some impact on private developers.

With the expansion of the public housing programme (including rental estates and HOS/PSPS), the role of the private sector in providing homes for the lower and lower to middle income groups would be reduced. It may therefore be wise for developers to concentrate more of their efforts on the middle and upper parts of the property market. Clearly, such influences caused by government housing policy must also be carefully considered in determining the right flat mix for a redevelopment scheme.

Other Considerations

The Whampoa Dockyard Redevelopment case, apart from illustrating the broad issues to be taken into account for redevelopment schemes, also provides examples of other important points to be considered. For example, coordination with Green Island Cement was required for obtaining the land over which the proposed north-south highway is to run through. This could take considerable inter-company negotiations

¹Private Sector Participation Scheme- similar to Home Ownership Scheme, except that government buys the flats built by private developers under contract and resell them to the applicants.

²Shui On Quarterly, December 1984.

to accomplish. However, the fact that both Green Island Cement and Whampoa were companies under the control of Cheung Kong (Holdings) might be the main reason for the issue being resolved expeditiously.

The argument over the rate of car parking provision in the 1982 approved submission is also an interesting point to note. Whampoa asked for a rate of one space per three flats while government imposed a limit of not more than one space per five flats. Town Planning Board's final decision was one space per four flats. The case demonstrated that with appropriate lobbying and arguing on a rational basis, the developer could indeed fight for a better deal from the government.

During the period between the dockyard site was vacated in 1980 and beginning of development, the land was leased out in parcels on a temporary basis earning a substantial rental income for Whampoa. It is management's responsibility not to let valuable asset sitting idle and it is also an example of the many things that have to be carefully considered in a redevelopment scheme.

Stage III - Execution of the Redevelopment Scheme

The execution of a redevelopment scheme is a bit more complicated than that for ordinary property development. Normally, an implementation programme and a Master Layout Plan would be required to be submitted to government for approval. The redevelopment scheme would then have to be carried out strictly in accordance with the approved programme and Master Layout Plan. Should the developer wishes to make any alterations to the programme and Master Layout Plan, the written approval from government must be obtained.

During the implementation stage, the developer would also have to monitor the property market closely to see that if any changes, e.g. size of flats, design of flats etc, are necessary in order to better

meet the market demand. To this end, the implementation programme and Master Layout Plan become constraints and the developer may not be able to response to market needs as easily as he wishes. In particular in the Whampoa Dockyard Redevelopment case, the building programme is also tied to the external roadworks programme and it imposes an additional rigidity in the programme. For example, in the case the developer had to ask for permission to occupy the first 11 towers of flats prior to the completion of the related external roadworks. Where if in the case of ordinary property development, there is genrally no restriction on early completion. Instead, in the normal land leases a Building Covenant is included whereby the government imposes on the developer a deadline for completion of development.

Apart from the constraints brought about by the implementation programme and Master Layout Plan, the execution stage of a redevelopment scheme would be very similar to that for ordinary property development and we would not go into details here.

CHAPTER V

LAND DEVELOPMENT CORPORATION

In February 1985, the proposal for setting up a Land Development Corporation was announced. It was anticipated that the necessary legislative procedure would take about six months to complete and the Corporation could be formed in late-1985.¹ The main tasks of the Corporation would be to coordinate urban renewal work with an aim of improving the environment of the older urban areas through redevelopment. On the face of it, it seems that the activities of the Corporation would overlap with redevelopment schemes undertaken by private developers. However, I would think the setting up of the Land Development Corporation would serve to assist private developers in implementing certain redevelopment projects efficiently.

The Land Development Corporation Concept

The concept of setting up a Land Development Corporation to facilitate urban renewal was a recommendation put forward by the Special Committee on Land Supply.² In a special study commissioned to examine the Land Development concept, the consultants came to the conclusion that it would be feasible to establish an institutional arrangement which would allow the private sector to develop at a profit while allowing government to achieve its own objectives of fair treatment and environmental improvement.

¹ Hong Kong Economic Journal, February 13, 1985.

² Part 6, Special Committee on Land Supply, Report to His Excellency, March 1984.

Government had once tried out an urban renewal pilot scheme at the Upper and Lower Lascar Rows area in the Western District. The scheme did succeed in improving the environment, roads and other facilities. However, progress of the scheme was painfully slow and much government staff resources were involved in negotiating with property owners. The main difficulty in urban renewal schemes was in the total resumption of properties in individual ownership. On the other hand, it was virtually an impossibility for all the individual owners to reach a consensus on redevelopment.

In the Land Development Corporation concept, such difficulties would be overcome by legislation. The Corporation as proposed would be a public corporation set up under a special ordinance and wholly owned by government (similar to the Mass Transit Corporation). Its primary function would be to intervene between the developer and the planning authority to expedite the development of the areas concerned.

Upon the selection of a Special Development Area and an appropriate layout being drawn up by government in conjunction with the Corporation, the Corporation would draw up viable packages to achieve comprehensive redevelopment. Redevelopment would only proceed upon the agreement of the majority of the affected owners and the actual redevelopment would be undertaken by a company to be formed jointly by the Corporation and those owners who wish to participate in the redevelopment project. Properties belonging to owners who do not wish to participate in the redevelopment would be resumed with suitable compensation.

Participating owners will be given shares according to the values of their properties and these shares would be transferrable during the course of redevelopment. Upon completion of redevelopment, these owner shareholders would have the right to purchase the redeveloped properties at a price equivalent to the appropriate construction cost. Funds for redevelopment could be raised via ordinary commercial channels,

including the issuing of new shares. Preference would also be given to the original owners in the acquiring of these new shares. Private developers could also participate by buying shares or forming joint venture with the redevelopment company. Although normally more flats would be built upon redevelopment, it was expected that only a small portion of extra units would be available for sale in the open market as most of the flats would be sold back to the original owners. It was also anticipated that private developers should generally welcome urban renewal as it would improve the environment and thereby enhance value of land in the vicinity.

Redevelopment Scheme and Land Development Corporation

There appears to be great potential for private developers wishing to undertake redevelopment schemes to cooperate with and benefit by the setting up of the Land Development Corporation. Suppose a developer already owns two pieces of land suitable for redevelopment (which may or may not involve a change in land use) but the two lots are separated by a plot on which several old buildings stand. It would be highly beneficial for the entire area to be redeveloped as a whole from the government's and also private developer's viewpoint. A comprehensive redevelopment with better planning and more efficient use of land could result in line with the goal of urban renewal. In such a case, the developer could then approach the Land Development Corporation with a view to designate the intervening plot a Special Redevelopment Area. The affected individual owners could then be given a fair amount of shares in the redevelopment company. Except for certain minority owners who wish to hold onto their old properties for personal reasons, all three sides- private developer, government and individual owners would stand to gain from such an arrangement.

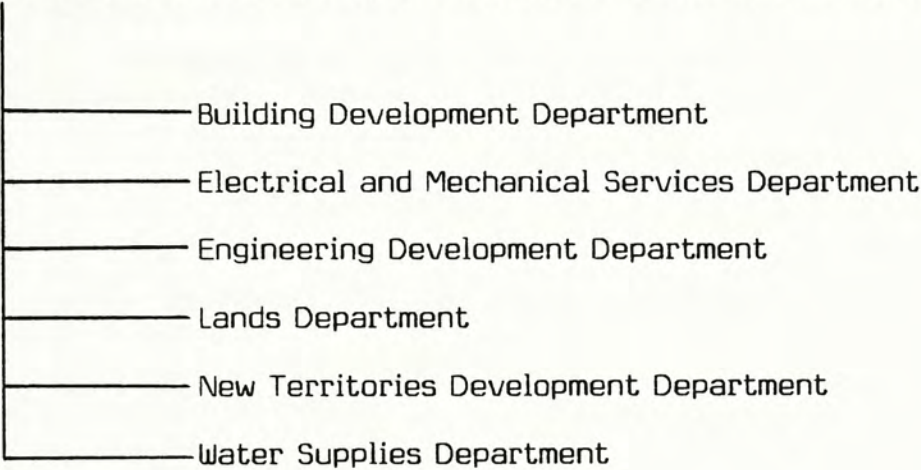
Another potential advantage to be gained from the Land Development Corporation concept is the Corporation's possible role as an intermediary between private developer and government. The public corporation status of the Corporation puts it in a much better bargaining position in negotiations with government than the average developer. Experience with the Mass Transit Railway Corporation in the negotiation of development rights above MTR stations has clearly illustrated this point. I believe a satisfactory arrangement could be worked out to facilitate the successful implementation of redevelopment schemes.

The idea is for the developer to form a joint venture company with the Land Development Corporation to undertake redevelopment. This joint venture arrangement is quite common among private developers. With the Land Development Corporation acting as an intermediary, both the private developer's and government's needs could be better met with reduced communication and coordination problems. As a whole, redevelopment could take place more efficiently with less time wasted on negotiations and renegotiations.

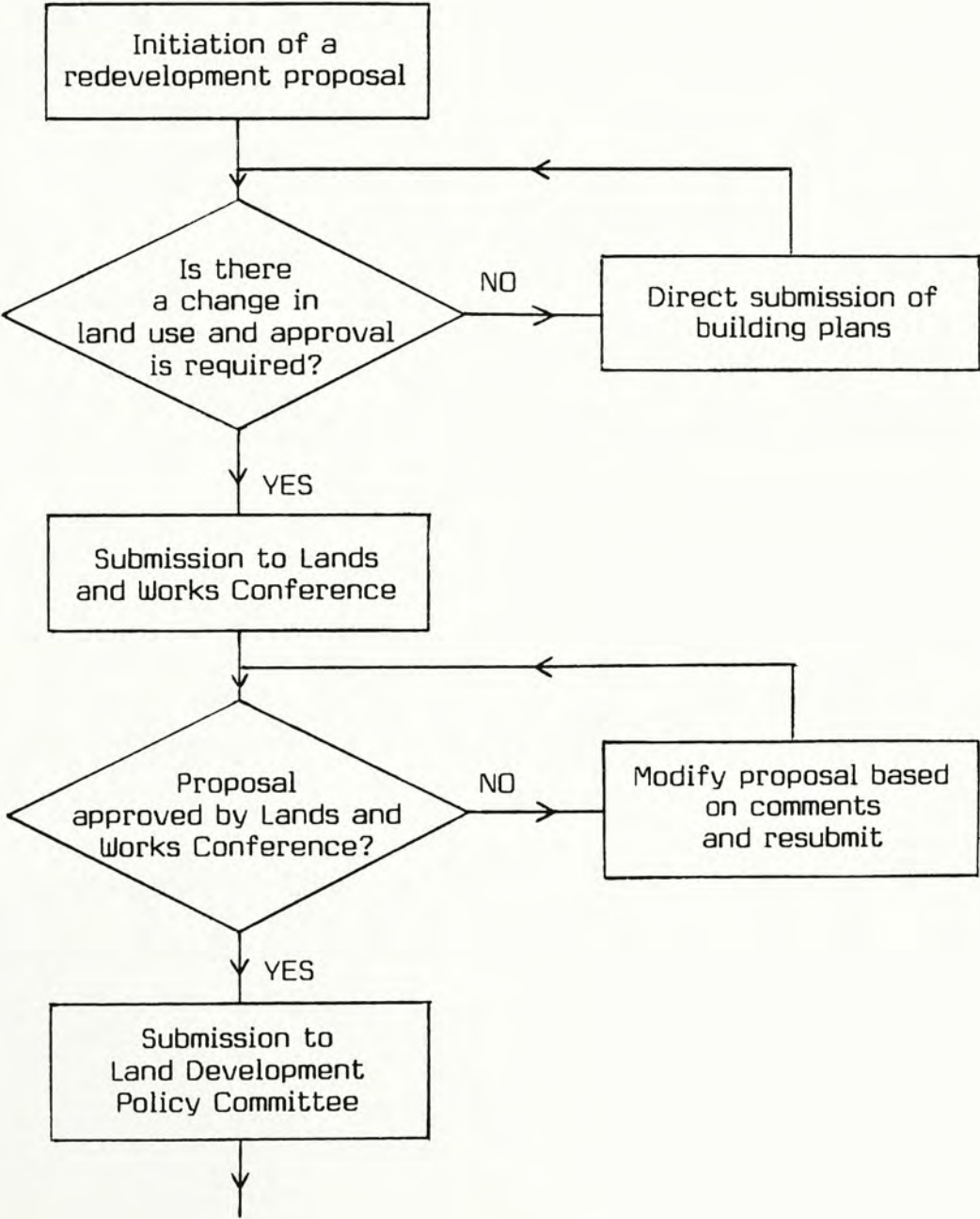
APPENDIX 1

LANDS AND WORKS GROUP OF DEPARTMENTS

Lands and Works Branch (headed by the Secretary for Lands and Works)

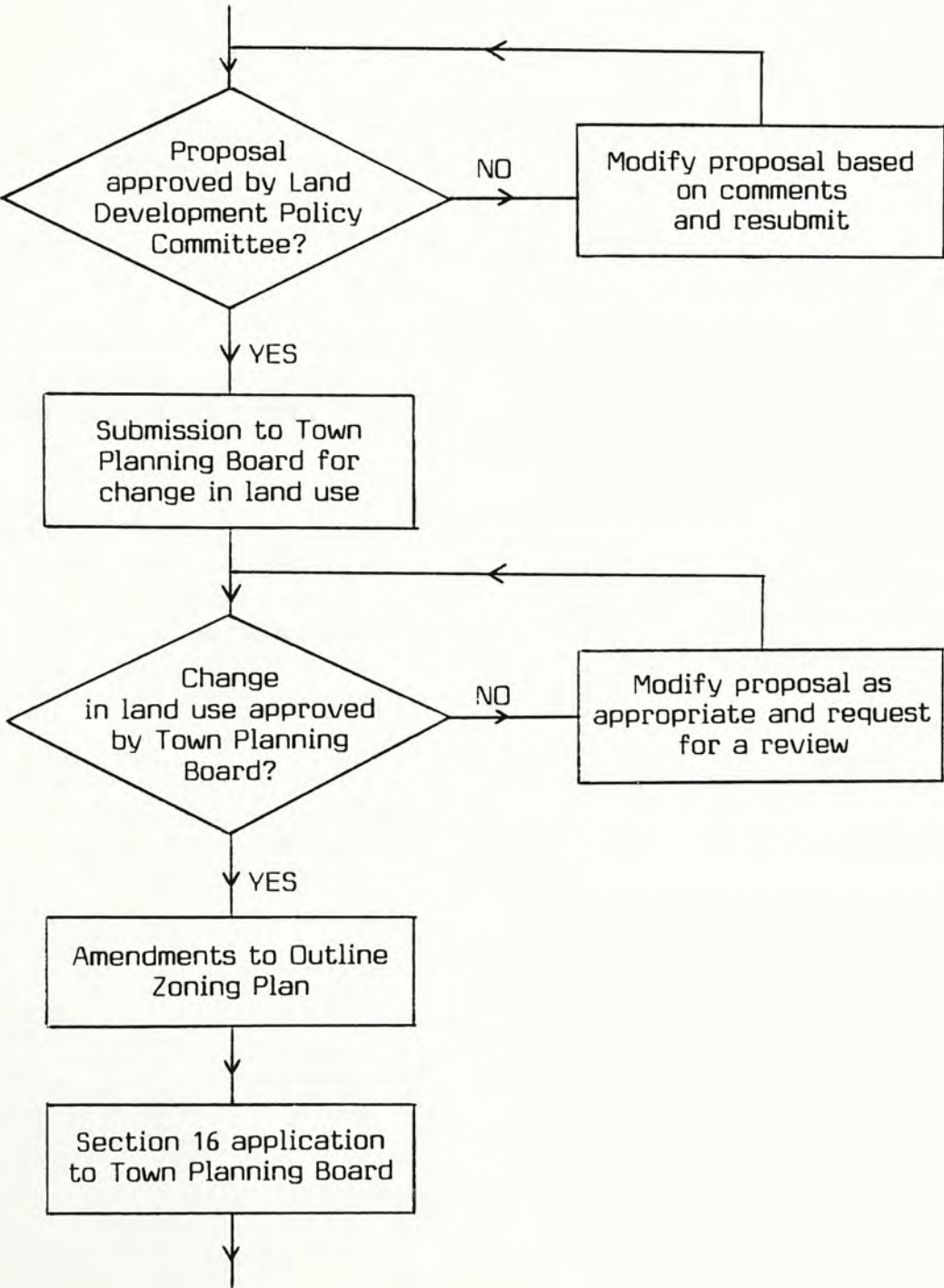


APPENDIX 2
FLOW CHART FOR
PROCESSING OF REDEVELOPMENT PROPOSALS IN GOVERNMENT



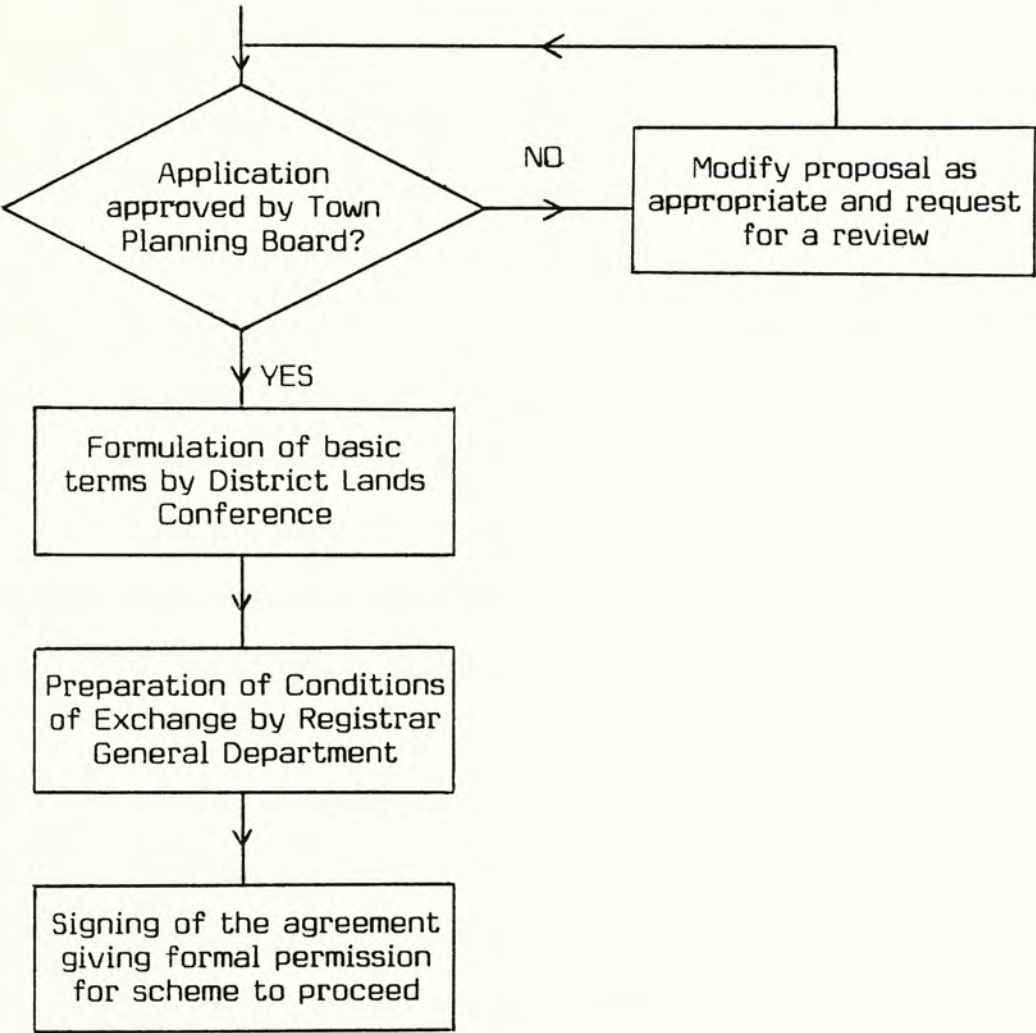
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APPENDIX 2 (Cont'd)



(to be continued)

APPENDIX 2 (Cont'd)



APPENDIX 3

CHRONOLOGY OF WHAMPOA DOCKYARD REDEVELOPMENT

<u>Date</u>	<u>Event</u>
July 1978	Hong Kong and Whampoa Dock Company (Whampoa) submitted the initial (first) redevelopment scheme for the Whampoa Dockyard site.
February 1979	Public Works Department Conference considered and agreed that the scheme should be rejected. The investigation into improving the road network in the vicinity of the Whampoa Dockyard was initiated.
September 1979	The redevelopment scheme was formally rejected by the government in a letter from the Director of Public Works. The Company was asked to consider development for solely industrial purposes with a maximum plot ratio of five.
December 1979	Whampoa commissioned consultants to prepare a traffic planning study for the dockyard area.
March 1980	Whampoa obtained Green Island Cement Company Limited's agreement regarding the encroachment onto the cement company's land by the proposed north-south highway relating to the Whampoa Dockyard Redevelopment.
April 1980	Whampoa submitted a revised (second) redevelopment scheme.

APPENDIX 3 (Cont'd)

<u>Date</u>	<u>Event</u>
July 1980	The second redevelopment scheme was considered unacceptable by Public Works Department Conference and Whampoa was asked to reconsider the redevelopment scheme based on certain planning criteria set by the Conference.
December 1980	Whampoa submitted the third redevelopment scheme which included a phased development arrangement.
April 1981	Public Works Department Conference considered and approved the proposals in principle.
May 1981	Land Development Policy Committee considered and approved the redevelopment scheme.
December 1981	The amended Outline Zoning Plan showing the rezoning of the dockyard site as agreed by the Town Planning Board was gazetted.
January 1982	Whampoa submitted a Section 16 application for the redevelopment scheme to the Town Planning Board.
May 1982	The redevelopment scheme was approved by the Town Planning Board.
March 1983	Whampoa approached government with proposed amendments to the approved redevelopment scheme (fourth scheme).
May 1983	Lands and Works Conference (which replaced Public Works Department Conference) considered the amendments and agreed that an overall increase in population was acceptable in principle subject to sufficient provision of open space and G/IC facilities (see p. 17 for definition).

APPENDIX 3 (Cont'd)

<u>Date</u>	<u>Event</u>
July 1983	Whampoa submitted a Section 16 application to the Town Planning Board with an amended (fifth) redevelopment scheme.
September 1983	The application was considered and rejected by the Town Planning Board.
October 1983	Whampoa modified the redevelopment scheme and requested for a review. The revised (sixth) scheme was approved by the Town Planning Board.
February 1984	District Lands Conference discussed and agreed on the basic terms.
May 1984	The basic terms and the assessed premium of HK\$390 million were communicated to Whampoa for agreement.
November 1984	Whampoa submitted a revised building and road works construction programme.
December 1984	The agreement giving formal permission for the redevelopment scheme to proceed was signed and the premium of HK\$390 million was paid.
April 1985	Sale of the first batch of flats in the redevelopment scheme commenced.

APPENDIX 4

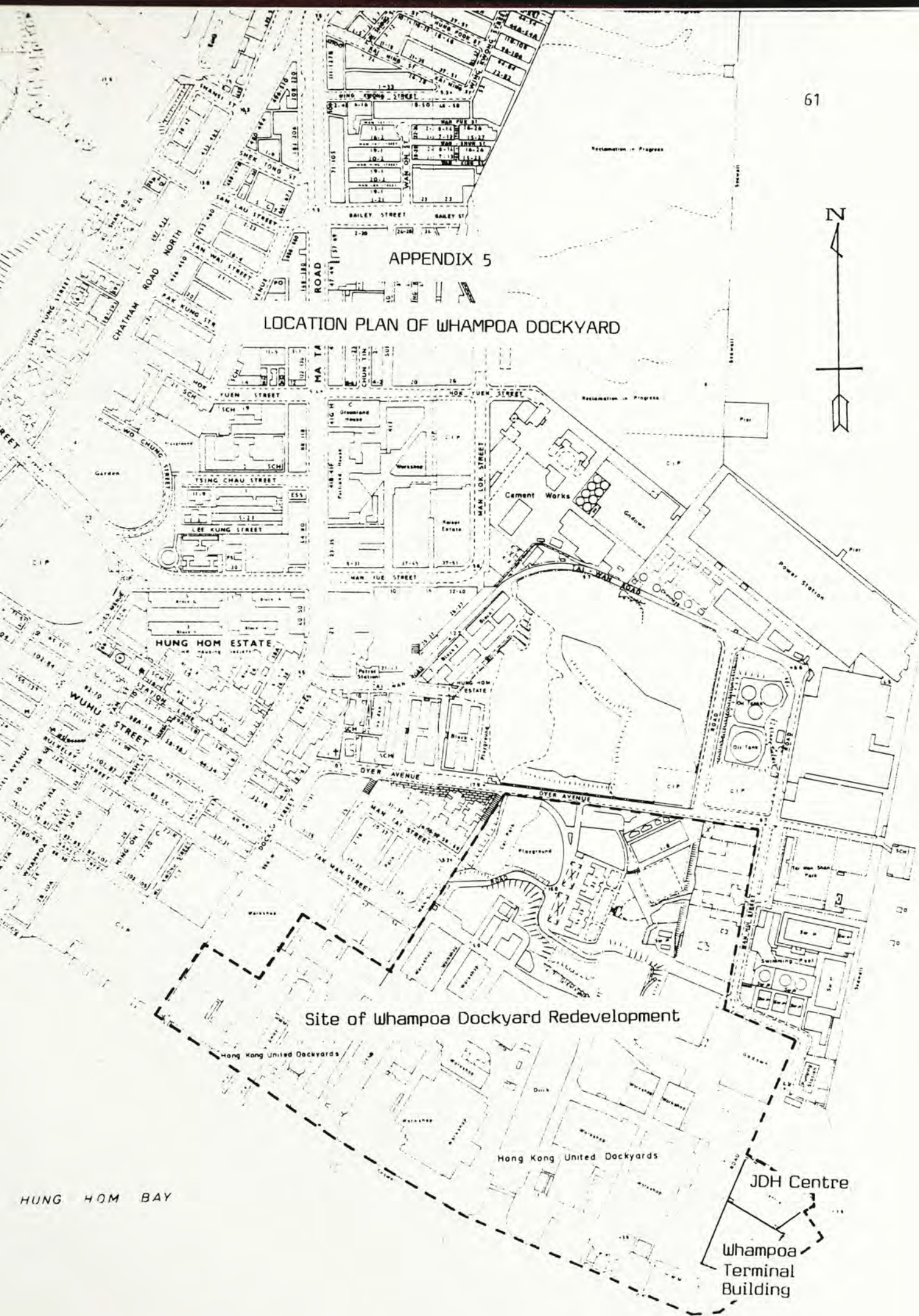
GROSS FLOOR AREA AND PLOT RATIO

The gross floor area of a building is the total area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground), together with the area of each balcony in the building, which is to be calculated from the overall dimensions of the balcony (including the thickness of the sides), and the thickness of the external walls of the building.

The plot ratio for a building is obtained by dividing the gross floor area of the building by the area of the site on which the building is erected.

APPENDIX 5

LOCATION PLAN OF WHAMPOA DOCKYARD



APPENDIX 6

SUMMARY OF PERTINENT DETAILS OF SCHEMES

Industrial g.f.a.(m ²)	Commercial g.f.a.(m ²)	Residential g.f.a.(m ²)	No. of flats	Size (m ²)	Remarks
651,280	135,148	375,684	5,334	74	initial prop.
32,400*	13,176*	125,280*	-	-	revision
246,798	163,054	642,200	7,232	88.8	approved
**	186,054	732,200	12,035	60.8	rejected
**	177,000	732,200	11,794	62.1	rejected
**	157,000	710,000	11,224	63.3	approved

*site area
**all industrial floor area in JDH Centre and Whampoa Terminal Building
remaining site area 18.9 ha

APPENDIX 7

PERTINENT TERMS IN THE CONDITIONS OF EXCHANGE

- (a) Grantee: Hong Kong and Whampoa Dock Company Limited
- (b) Area: 18.9 ha
- (c) Term: 75 years (renewable) from the date of surrender of the old lots
- (d) Premium: HK\$390 million
- (e) User and development restriction: no industrial use, residential accommodation not exceeding 710,000 m², not more than 11,224 flats, commercial accommodation not exceeding 157,000 m², maximum height not exceeding 51.82 m above HKPD
- (f) Provision of G/IC facilities¹: two primary and two secondary school sites total area not less than 17,800 m², kindergarten of not less than 36 classrooms, market not less than 4,600 m², government accommodation 4,005 m² with car parks and loading/unloading facilities which will be purchased by government at cost
- (g) Public Transport Facilities: a bus terminus, a public light bus terminus and a taxi rank
- (h) Open space provision: 62,600 m² with 35,700 m² at ground level and 26,900 m² on podium
- (i) Recreational facilities: 8,800 m² covered active recreational facilities
- (j) Car parking: at not more than one space per five residential flats
one space per 250 m² of commercial accommodation

¹G/IC facilities- see p. 17 for definition

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